



Management's Discussion and Analysis  
and Financial Statements  
June 30, 2022 and 2021

# Choctaw County - City of Hugo Hospital Authority

Choctaw County – City of Hugo Hospital Authority

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June 30, 2022 and 2021

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## Independent Auditor's Report

To the Board of Trustees  
Choctaw County – City of Hugo Hospital Authority  
Hugo, Oklahoma

### Report on the Audit of the Financial Statements

#### ***Opinion***

We have audited the financial statements of Choctaw County – City of Hugo Hospital Authority (Authority), as of and for the years ended June 30, 2022 and 2021, and the notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Adoption of New Accounting Standard***

As discussed in Notes 1 and 12 to the financial statements, the Authority has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2021. Accordingly, a restatement has been made to the Authority's net position as of July 1, 2020, to restate beginning net position. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
April 25, 2023

## Introduction

Our discussion and analysis for Choctaw County – City of Hugo Hospital Authority (Authority) financial performance provides an overview of the Authority’s financial activities for the fiscal years ended June 30, 2022, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Authority which begin on page 9.

## Financial Highlights

Total assets increased in 2022 by \$1,488,185 or 8% and increased in 2021 by \$4,569,207 or 31%.

Total liabilities decreased in 2022 by \$2,950,292 or 71% and decreased in 2021 by \$922,266 or 18%.

The Authority’s net position increased in 2022 by \$4,438,477 or 29% and increased in 2021 by \$5,491,473 or 56%.

The Authority reported an operating loss in 2022 of \$731,996, an operating loss in 2021 of \$1,540,744 and an operating loss in 2020 of \$1,102,900. During 2022, the operating loss decreased by \$808,748 or 52%, and the operating loss increased by \$437,844 or 40% during 2021.

Operating expenses increased in 2022 by \$444,476 or 4% and increased by \$250,501 or 2% in 2021.

Due to the COVID pandemic the Authority received \$1,024,951 and \$5,000,000 of Provider Relief Funds from the Department of Health and Human Services to be used to prevent, prepare for and respond to coronavirus during 2022 and 2021. Amounts not yet earned are recorded as refundable advances and restricted cash and totaled \$0 and \$2,852,697 as of June 30, 2022 and 2021. In addition, in 2021, the Authority received forgiveness of the Paycheck Protection Program loan and recognized \$1,191,077 as nonoperating revenue.

## Using This Annual Report

The Authority’s financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

## The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority’s finances is “Is the Authority as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority’s net position and changes in it. You can think of the Authority’s net position - the difference between assets and liabilities - as one way to measure the Authority’s financial health, or financial position. Over time, increases or decreases in the Authority’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority’s patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

### The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

### The Authority’s Net Position

The Authority’s net position is the difference between its assets and liabilities reported in the Statement of Net Position. The Authority’s net position increased by \$4,438,477 or 29% in 2022 and increased by \$5,491,473 or 56% in 2021 as shown below.

	2022	2021 (restated)	2020 ***
<b>Assets</b>			
Current assets	\$ 16,873,977	\$ 16,287,313	\$ 12,195,893
Capital assets, net	4,023,950	3,122,429	2,644,642
Total assets	\$ 20,897,927	\$ 19,409,742	\$ 14,840,535
<b>Liabilities</b>			
Current liabilities	\$ 1,159,786	\$ 4,129,764	\$ 4,346,137
Right to use lease liabilities and long-term debt, less current maturities	28,671	8,985	714,878
Total liabilities	1,188,457	4,138,749	5,061,015
<b>Net Position</b>			
Net investment in capital assets	3,551,197	2,478,296	1,772,331
Restricted, expendable for debt service	428,349	586,623	741,658
Unrestricted	15,729,924	12,206,074	7,265,531
Total net position	19,709,470	15,270,993	9,779,520
Total liabilities and net position	\$ 20,897,927	\$ 19,409,742	\$ 14,840,535

\*\*\* Governmental Accounting Standards Board (GASB) Statement No. 87 *Leases* was adopted on July 1, 2020, the impact to the year ended June 30, 2020 was not considered material and the financial information for the year ended June 30, 2020 was not adjusted for the impacts of GASB No.87 *Leases*.

### Assets, Liabilities, and Net Position

Significant components of change in the Authority's assets, liabilities, and net position are primarily attributable to the impacts of the Coronavirus pandemic as discussed below

- Cash and cash equivalents, including restricted cash, increased in 2022 by \$492,669 or 11% primarily due to Provider Relief Fund proceeds received and decreased in 2021 by \$2,028,617 or 30%.
- Due to the COVID pandemic the Authority received \$1,024,951 and \$5,000,000 of Provider Relief Funds from the Department of Health and Human Services to be used to prevent, prepare for and respond to coronavirus during 2022 and 2021. Amounts not yet earned are recorded as refundable advances and restricted cash and totaled \$0 and \$2,852,697 as of June 30, 2022 and 2021.
- Patient receivables decreased in 2022 by \$290,896 or 27% and decreased in 2021 by \$114,055 or 10%. The decrease for the year ended June 30, 2022, is attributable to volume decreases in the fourth quarter.
- Accounts payable increased in 2022 by \$64,638 or 30% due to the volume increase in the 1<sup>st</sup> three quarters of the year. Payables decreased in 2021 by \$56,973 or 21%.

### Operating Results and Changes in Net Position

	2022	2021 (restated)	2020 ***
Operating Revenues			
Net patient service revenue	\$ 10,179,704	\$ 8,927,071	\$ 9,083,075
Other revenue	53,629	53,038	84,377
	<u>10,233,333</u>	<u>8,980,109</u>	<u>9,167,452</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,758,862	5,651,409	5,574,725
Supplies and other	4,716,448	4,428,905	4,220,971
Depreciation and amortization	491,032	442,508	474,656
	<u>10,966,342</u>	<u>10,522,822</u>	<u>10,270,352</u>
Operating Loss	<u>(733,009)</u>	<u>(1,542,713)</u>	<u>(1,102,900)</u>
Nonoperating Revenues (Expenses)			
Sales tax income	1,191,651	1,125,621	957,110
Forgiveness of Paycheck Protection Program loan	-	1,191,077	-
Investment income	89,279	93,412	59,397
Interest expense	(22,476)	(16,495)	(21,780)
Noncapital contributions and grants	35,384	116,605	17,819
Loss of disposal of capital assets	-	(615)	-
Provider relief funds	3,877,648	4,524,581	1,305,707
	<u>5,171,486</u>	<u>7,034,186</u>	<u>2,318,253</u>
Change in Net Position	<u>\$ 4,438,477</u>	<u>\$ 5,491,473</u>	<u>\$ 1,215,353</u>

### **Operating Results**

The first component of the overall change in the Authority’s net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other revenues and the expenses incurred to perform those services. The Authority had operating losses in 2022, 2021, and 2020. The operating loss for 2022 decreased by \$808,748 as compared to the increase of \$439,813 in 2021. The primary components of the decrease in operating loss are:

- Net patient service revenue for 2022 increased \$1,252,633 over 2021 due to increased volumes in the first three quarters of the year. Net patient service revenue from 2021 decreased \$156,004 over 2020.
- Operating expense for 2022 increased \$444,476 from 2021 primarily due to volume fluctuations. Operating expenses in 2021 increased \$250,501 from 2020.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of county sales tax, interest income, interest expense and Provider Relief Funds. The sales tax increased by \$66,030 or 6% in 2022 and increased by \$168,511 or 18% in 2021. In 2021, the Authority received forgiveness of the Paycheck Protection Program loan and recognized \$1,191,077 as nonoperating revenue. In addition, as a result of the COVID-19 pandemic, the Authority received Provider Relief Funds during 2022 and recognized \$3,877,648 as nonoperating revenue and in 2021 recognized \$4,524,581 as nonoperating revenue.

### **The Authority’s Cash Flows**

The Authority’s overall liquidity increased during 2022 with a net increase to cash and cash equivalents of \$492,669 and decreased during 2021 by \$2,028,617. Cash provided by operating activities increased in 2022 by \$987,748 or 114% and decreased in 2021 by \$641,280 or 248%. This was primarily due to the increase in net patient service revenue. Cash provided by noncapital financing activities decreased in 2022 by \$4,074,850 or 68% attributable to a decrease in Provider Relief Funds received and increased in 2021 by \$84,090 or 1%. Cash used for capital and capital related financing activities increased in 2022 by \$402,097 or 33% primarily due to the purchase of capital assets and increased in 2021 by \$684,322 or 142%. Cash from investing activities increased in 2022 by \$6,010,485 and decreased in 2021 by \$6,011,985.

### **Capital Assets**

The Authority had \$4,023,950 invested in capital assets at the end of 2022 and \$3,122,429 at the end of 2021, net of accumulated depreciation and amortization, as detailed in Note 5 to the financial statements. The Authority purchased new capital assets totaling \$1,371,177 in 2022 and \$906,164 in 2021.

**Note Payable and Right to use obligations**

The Authority had \$472,753 outstanding debt and right to use obligations at the end of 2022 and \$644,133 at the end of 2021, as detailed in Notes 6 and 7 to the financial statements. The Authority received a loan under the Paycheck Protection Program (PPP) in the amount of \$1,191,077 that was forgiven during fiscal year 2021. The Authority made principal payments of \$208,934 in 2022 and \$276,875 in 2021.

**Contacting the Authority’s Financial Management**

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-317-9500.

Choctaw County – City of Hugo Hospital Authority

Statements of Net Position

June 30, 2022 and 2021

	2022	2021 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,147,500	\$ 1,802,134
Restricted cash and cash equivalents - Provider Relief Funds	-	2,852,697
Short-term investments - certificates of deposit	7,369,608	7,166,787
Internally designated cash for specific operating purposes	1,570,817	1,567,189
Internally designated cash for scholarships	33,583	32,076
Restricted cash by bank for debt service	428,349	586,623
Receivables		
Patient, net of estimated uncollectibles		
of \$1,905,000 in 2022 and \$3,196,000 in 2021	798,320	1,089,189
Estimated third-party payor settlements	106,225	62,620
Sales tax	944,919	626,319
Supplies	426,580	353,630
Prepaid expenses and other	48,076	148,049
Total current assets	16,873,977	16,287,313
Capital Assets		
Capital assets not being depreciated	487,483	187,554
Capital assets being depreciated, net	3,492,433	2,888,517
Right to use leased assets, net of accumulated amortization	44,034	46,358
Total capital assets	4,023,950	3,122,429
Total assets	\$ 20,897,927	\$ 19,409,742

Choctaw County – City of Hugo Hospital Authority  
 Statements of Net Position  
 June 30, 2022 and 2021

	2022	2021 (Restated)
Liabilities and Net Position		
Current Liabilities		
Note payable	\$ 428,349	\$ 586,623
Current portion of right to use lease liabilities	15,733	48,525
Accounts payable	281,240	216,602
Accrued expenses	434,464	425,317
Refundable advance - Provider Relief Fund program	-	2,852,697
Total current liabilities	1,159,786	4,129,764
Long-Term Liabilities		
Right to use lease liabilities, net of current portion	28,671	8,985
Total liabilities	1,188,457	4,138,749
Net Position		
Net investment in capital assets	3,551,197	2,478,296
Restricted, expendable for debt service	428,349	586,623
Unrestricted	15,729,924	12,206,074
Total net position	19,709,470	15,270,993
Total liabilities and net position	\$ 20,897,927	\$ 19,409,742

Choctaw County – City of Hugo Hospital Authority  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended June 30, 2022 and 2021

	2022	2021 (Restated)
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$4,006,786 in 2022 and \$5,315,875 in 2021)	\$ 10,179,704	\$ 8,927,071
Other revenue	53,629	53,038
Total operating revenues	10,233,333	8,980,109
Operating Expenses		
Salaries and wages	5,046,226	4,919,820
Employee benefits	712,636	731,589
Professional fees and purchased services	2,567,585	2,452,983
Supplies and other	2,148,863	1,975,922
Depreciation and amortization	491,032	442,508
Total operating expenses	10,966,342	10,522,822
Operating Loss	(733,009)	(1,542,713)
Nonoperating Revenues (Expenses)		
Sales tax income	1,191,651	1,125,621
Forgiveness of Paycheck Protection Program loan	-	1,191,077
Investment income	89,279	93,412
Interest expense	(22,476)	(16,495)
Noncapital contributions and grants	35,384	116,605
Loss on disposal of capital asset	-	(615)
Provider Relief Funds revenues	3,877,648	4,524,581
Net nonoperating revenues	5,171,486	7,034,186
Change in Net Position	4,438,477	5,491,473
Net Position, Beginning of Year	15,270,993	9,779,520
Net Position, End of Year	\$ 19,709,470	\$ 15,270,993

## Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows  
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated)
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 10,426,968	\$ 9,129,307
Payments to suppliers and contractors	(4,624,787)	(4,473,941)
Payments to and on behalf of employees	(5,749,715)	(5,572,866)
Other receipts and payments, net	53,629	53,038
<b>Net Cash from (used for) Operating Activities</b>	<b>106,095</b>	<b>(864,462)</b>
<b>Noncapital Financing Activities</b>		
Noncapital contributions and grants	35,384	116,605
Sales taxes received	873,051	891,631
Proceeds from Provider Relief Fund	1,024,951	5,000,000
<b>Net Cash from Noncapital Financing Activities</b>	<b>1,933,386</b>	<b>6,008,236</b>
<b>Capital and Capital Related Financing Activities</b>		
Principal payments on short-term note payable	(158,274)	(155,035)
Interest payments on short-term note payable	(13,539)	(14,319)
Principal payments on right to use lease liabilities	(50,660)	(121,840)
Interest paid on right to use lease liabilities	(8,937)	(2,176)
Purchase of capital assets	(1,371,177)	(906,164)
<b>Net Cash used for Capital and Capital Related Financing Activities</b>	<b>(1,602,587)</b>	<b>(1,199,534)</b>
<b>Investing Activities</b>		
Investment income	89,279	93,412
Purchase of certificates of deposit	-	(6,000,000)
Reinvestment of earnings	(49,682)	(64,300)
<b>Net Cash from (used for) Investing Activities</b>	<b>39,597</b>	<b>(5,970,888)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>476,491</b>	<b>(2,026,648)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>4,656,800</b>	<b>6,683,448</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 5,133,291</b> <b>(14,209)</b>	<b>\$ 4,656,800</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</b>		
Cash and cash equivalents	\$ 5,147,500	\$ 1,802,134
Restricted cash and cash equivalents - Provider Relief Funds	-	2,852,697
<b>Total Cash and Cash Equivalents</b>	<b>\$ 5,147,500</b>	<b>\$ 4,654,831</b>

## Choctaw County – City of Hugo Hospital Authority

Statements of Cash Flows  
Years Ended June 30, 2022 and 2021

	2022	2021 (Restated)
Reconciliation of Operating Loss to Net Cash		
from (used for) Operating Activities		
Operating loss	\$ (733,009)	\$ (1,542,713)
Adjustments to reconcile operating loss to net cash		
from (used for) operating activities		
Depreciation and amortization	491,032	442,508
Provision for bad debts	4,006,786	5,315,875
Changes in assets and liabilities		
Patient receivables	(3,715,917)	(5,201,820)
Supplies	(72,950)	14,504
Prepaid expenses and other	99,973	(38,487)
Accounts payable	64,638	(56,973)
Accrued expenses	9,147	78,555
Estimated third-party payor settlements	(43,605)	88,181
Net Cash from (used for) Operating Activities	\$ 106,095	\$ (900,370)
Supplemental Disclosure of Noncash Noncapital		
Financing Activities		
Paycheck Protection Program Loan forgiveness	\$ -	\$ 1,191,077
Supplemental Disclosure of Noncash Capital and Capital Related		
Financing Activities		
Lease liability for acquisition of right to use leased assets	\$ 37,554	-

**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of the Choctaw County – City of Hugo Hospital Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

**Reporting Entity**

The Authority operates a 34-bed short-term acute care hospital located in Hugo, Oklahoma as Choctaw Memorial Hospital. The governing boards of Choctaw County and the City of Hugo appoint members to the Board of Trustees of the Authority on an alternating basis. The Board of Trustees exercises governing oversight responsibility for the Hospital which includes such duties as budget review, care of patients, and management of the facilities as set forth by the ordinance of the City of Hugo.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority does not have a component unit which meets the GASB criteria.

**Measurement Focus and Basis of Accounting**

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Authority's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

*Restricted net position:*

Expendable - Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

**Short-Term Investments**

Short-term investments include certificates of deposit with an original maturity of three to thirty-six months, excluding internally designated or restricted cash and investments. The certificates of deposit greater than twelve months are considered short-term as they can be redeemed at any time and the Authority considers them short-term because, if needed, they will not be held for the entire term. In addition, the penalties for withdrawal of the certificates of deposit are not considered significant.

**Restricted and Internally Designated Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments that have restrictions which change the nature or normal understanding of availability of the asset are reported separately on the statements of net position. Restricted cash and investments include funds that are restricted by a bank for debt service and proceeds from the Provider Relief Fund program (Note 3). Internally designated for specific operating purposes consist of certificates of deposit set aside by the Board of Trustees for future operating purposes, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Certificates of deposit are recorded at historical cost. Restricted and internally designated cash and investments that are available for obligations classified as current liabilities are reported in current assets, as well as those intended to be used for operations.

**Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

**Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

**Investment Income**

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

**Capital Assets**

Property and equipment acquisitions in excess of \$1,500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Right to use leased assets are recognized at the lease commencement date and represent the Authority’s right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any direct cost necessary to place the leased asset into service.

Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 5 years.

The estimated useful lives of capital assets are as follows:

Land improvements	10-40 Years
Buildings and improvements	5-40 Years
Equipment	3-20 Years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are reported after nonoperating revenues (expenses). Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Compensated Absences**

The Authority’s employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

**Operating Revenues and Expenses**

The Authority’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority’s principal activity, and the costs of providing those services, including depreciation and amortization and excluding interest cost. All other revenues and expenses are reported as nonoperating.

**Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity Care**

The Authority provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$42,000 and \$0 for the years ended June 30, 2022 and 2021, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

### **Grants and Contributions**

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues (expenses).

### **Sales Tax Revenue**

Effective April 1, 2009, the citizens of Choctaw County, Oklahoma, approved a 0.75% sales tax for furnishing, equipping, renovating and maintaining the Authority, including the payment of principal and interest on any indebtedness. The tax will continue until repealed by the voters. For the years ended June 30, 2022 and 2021, the Authority recorded approximately \$1,192,000 and \$1,126,000, or 10% and 11% of its revenue, from the tax appropriation. Revenue from tax appropriations is recognized in the year in which the sales taxes are earned.

### **Implementation of GASB Statement No. 87**

As of July 1, 2020, the Authority adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard the Authority recognized right to use assets and liabilities of approximately \$104,000 as of July 1, 2020 which included previously recognized capital leases of approximately \$55,000 which were restated as right to use assets and liabilities. As a result of these adjustments there was no effect on beginning net position. The additional disclosures required by this standard are included in Notes 5, 6 and 12.

**Note 2 - Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients’ acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority’s Medicare cost reports have been audited by the MAC through the year ended June 30, 2018.

Medicaid: The Authority has been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustments. The payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Other payors: The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Authority’s patient service revenues for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Medicare	37%	45%
Medicaid	22%	15%
Commercial and other payors	30%	26%
Self pay	<u>11%</u>	<u>14%</u>
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**Note 3 - Provider Relief Funds**

The Authority received \$1,024,951 and \$5,000,000 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) in fiscal years 2022 and 2021. The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Authority received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of June 30, 2022 and 2021, the Authority had liabilities of \$0 and \$2,852,697, which were included in current liabilities on the accompanying statements of net position, as well as restricted cash totaling \$0 and \$2,852,697, which is subject to the restrictions imposed by HHS. During the years ended June 30, 2022 and 2021, the Authority recognized \$3,877,648 and \$4,524,581 as revenue, included as nonoperating activities on the statements of revenues, expenses and changes in net position.

**Note 4 - Deposits**

The carrying amounts of deposits consisted of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Carrying Amount		
Cash and cash equivalents	\$ 5,181,083	\$ 4,686,907
Certificates of deposit	9,368,774	9,320,599
	<u>\$ 14,549,857</u>	<u>\$ 14,007,506</u>

Deposits are reported in the following statement of net position captions:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 5,147,500	\$ 1,802,134
Restricted cash and cash equivalents - Provider Relief Funds	-	2,852,697
Short-term investments - certificates of deposit	7,369,608	7,166,787
Internally designated cash for specific operating purposes	1,570,817	1,567,189
Internally designated cash for scholarships	33,583	32,076
Restricted cash by bank for debt service	428,349	586,623
	<u>\$ 14,549,857</u>	<u>\$ 14,007,506</u>

**Deposits – Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. State statutes authorize the Authority to invest its excess cash balances generally in time deposits, open accounts, certificates of deposit or certain repurchase agreements of commercial banks or trust companies, state or generally chartered savings and loan associations or generally chartered savings banks having offices in the state and in certain circumstances, specified United States Treasury obligations.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits. The Authority has a general investment policy to minimize custodial credit risk.

The Authority’s deposits in banks at June 30, 2022 and 2021 were entirely covered by federal depository insurance or by collateral held by the Authority’s custodial bank in the Authority’s name.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

**Note 5 - Capital Assets**

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2022 are as follows:

	Balance June 30, 2021 as restated	Additions	Transfers and Retirements	Balance June 30, 2022
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
Construction in progress	172,042	778,887	(478,958)	471,971
Total capital assets not being depreciated	\$ 187,554	\$ 778,887	\$ (478,958)	\$ 487,483
Capital assets being depreciated				
Building and improvements	\$ 7,113,148	\$ 141,852	\$ 296,381	\$ 7,551,381
Equipment	5,487,967	450,591	(123,098)	5,815,460
Total capital assets being depreciated	\$ 12,601,115	\$ 592,443	\$ 173,283	\$ 13,366,841
Less accumulated depreciation for				
Building and improvements	\$ (4,570,109)	\$ (297,648)	\$ 110,446	\$ (4,757,311)
Equipment	(5,142,489)	(169,684)	195,076	(5,117,097)
Total accumulated depreciation	\$ (9,712,598)	\$ (467,332)	\$ 305,522	\$ (9,874,408)
Net depreciable capital assets	\$ 2,888,517			\$ 3,492,433
Right-to-use leased assets being amortized				
Equipment	\$ 654,063	\$ 37,554	\$ (384,411)	\$ 307,206
Accumulated amortization equipment	(607,705)	(39,878)	384,411	(263,172)
Net right-to-use leased assets	\$ 46,358	\$ (2,324)	\$ -	\$ 44,034
Capital assets, net	\$ 3,122,429			\$ 4,023,950

Construction in progress at June 30, 2022 represents various projects. The estimated cost to complete these projects is \$451,753, with no additional construction commitments as of June 30, 2022, which will be financed with Authority funds and should be completed by December of 2022.

## Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

Capital assets additions, retirements, transfers and balances for the year ended June 30, 2021 are as follows:

	Balance June 30, 2020 as restated	Additions	Transfers and Retirements	Balance June 30, 2021 as restated
Capital assets not being depreciated				
Land	\$ 15,512	\$ -	\$ -	\$ 15,512
Construction in progress	46,504	592,579	(467,041)	172,042
Total capital assets not being depreciated	<u>\$ 62,016</u>	<u>\$ 592,579</u>	<u>\$ (467,041)</u>	<u>\$ 187,554</u>
Capital assets being depreciated				
Building and improvements	\$ 6,457,849	\$ 188,258	\$ 467,041	\$ 7,113,148
Equipment	5,466,913	125,327	(104,273)	5,487,967
Total capital assets being depreciated	<u>\$ 11,924,762</u>	<u>\$ 313,585</u>	<u>\$ 362,768</u>	<u>\$ 12,601,115</u>
Less accumulated depreciation for				
Building and improvements	\$ (4,302,531)	\$ (267,578)	\$ -	\$ (4,570,109)
Equipment	(5,094,905)	(151,230)	103,646	(5,142,489)
Total accumulated depreciation	<u>\$ (9,845,046)</u>	<u>\$ (418,808)</u>	<u>\$ 103,646</u>	<u>\$ (9,712,598)</u>
Net depreciable capital assets	<u>\$ 2,582,626</u>			<u>\$ 2,888,517</u>
Right-to-use leased assets being amortized				
Equipment	\$ 654,063	\$ -	\$ -	\$ 654,063
Accumulated amortization equipment	(550,066)	(57,639)	-	(607,705)
Net right-to-use leased assets	<u>\$ 103,997</u>	<u>\$ (57,639)</u>	<u>\$ -</u>	<u>\$ 46,358</u>
Capital assets, net	<u>\$ 2,691,000</u>			<u>\$ 3,122,429</u>

### Note 6 - Lease Obligations

The Authority has entered into lease agreements for medical and office equipment. The Authority is required to make principal and interest payments through March 2025. The lease liabilities were valued using stated and discount rates between 2.21% and 6.00% based on the Authority's incremental borrowing rate at the inception of the leases.

## Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

Right to use leased asset obligations additions, payments and balances for the year ended June 30, 2022 and 2021 are as follows:

	(Restated) Balance June 30, 2021	<u>Additions</u>	<u>Payments</u>	Balance June 30, 2022	Due Within One Year
Right to use asset obligations					
Liabilities for right to use equipment	\$ 57,510	\$ 37,554	\$ (50,660)	\$ 44,404	\$ 15,733
Total liabilities for right to use assets	<u>\$ 57,510</u>	<u>\$ 37,554</u>	<u>\$ (50,660)</u>	<u>\$ 44,404</u>	<u>\$ 15,733</u>
	(Restated) Balance June 30, 2020	<u>Additions</u>	<u>Payments</u>	(Restated) Balance June 30, 2021	Due Within One Year
Right to use asset obligations					
Liabilities for right to use equipment	\$ 179,350	\$ -	\$ (121,840)	\$ 57,510	\$ 48,525
Total liabilities for right to use assets	<u>\$ 179,350</u>	<u>\$ -</u>	<u>\$ (121,840)</u>	<u>\$ 57,510</u>	<u>\$ 48,525</u>

As of June 30, 2022, the value of the lease liability is \$44,404 and the leased assets are \$44,034 which consisted of the following right to use assets:

- Right to use Medical equipment with a lease liability value of \$8,270. The Authority is required to make monthly principal and interest payments of \$2,076 through October 2025. The lease was valued using a stated rate of 2.21%. The lease contains a purchase option for fair market value.
- Right to use office equipment with a lease liability of \$36,134. The Authority is required to make monthly principal and interest payments at varying amounts up to \$3,566 through March 2027. The lease liability was valued using a discount rate of 6% based on the Authority's incremental borrowing rate. The lease agreements contain purchase options for fair market value.

## Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

Remaining principal and interest payments on leases are as follows:

Year ending June 30,	Principal	Interest
2023	\$ 15,733	\$ 1,988
2024	7,143	1,526
2025	7,584	1,085
2026	8,051	618
2027	5,893	139
	\$ 44,404	\$ 5,356

### Note 7 - Note Payable

A schedule of changes in the Authority's debt from direct borrowings at June 30, 2022 and 2021 consists of:

	Balance June 30, Restated 2021	Additions	Payments	Balance June 30, 2022	Due Within One Year
Short -term direct borrowing	\$ 586,623	\$ -	\$ 158,274	\$ 428,349	\$ 428,349
	Balance June 30, Restated 2020	Additions	Payments/ Forgiveness	Balance June 30, Restated 2021	Due Within One Year
Short -term direct borrowing	\$ 741,658	\$ -	\$ 155,035	\$ 586,623	\$ 586,623
PPP Loan	1,191,077	-	1,191,077	-	-
	\$ 1,932,735	\$ -	\$ 1,346,112	\$ 586,623	\$ 586,623

### Short-Term Direct Borrowing

In March 2015, the Authority obtained a \$1,494,000 short-term note payable to a bank which includes interest at 2.1% and is due on demand. The note matures annually and was extended for an additional year in February 2022. If no demand is made, the note matures February 2023. The note is collateralized by one of the Authority's certificates of deposit. Under an agreement with the bank, the Authority is making monthly payments on the note based on a 120-month amortization schedule.

### Paycheck Protection Program

The Authority was granted a \$1,191,077 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The Authority initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA and lender. The Authority recognized \$1,191,077 of loan forgiveness income for the year ended June 30, 2021.

**Note 8 - Concentrations of Credit Risk**

The Authority grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	20%	26%
Medicaid	10%	8%
Other third-party payors and patients	28%	19%
Self-pay	42%	47%
	<u>100%</u>	<u>100%</u>

**Note 9 - Pension Plan**

The Authority has a defined contribution pension plan under which employees can become participants upon hiring. Employer contributions are made on a discretionary basis. The Authority did not make any contributions for the years ended June 30, 2022, 2021 and 2020.

**Note 10 - Supplemental Hospital Offset Payment Program**

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

SHOPP revenue and assessment fees are recorded as part of net patient service revenue on the accompanying statements of revenues, expenses and changes in net position. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. The net SHOPP benefit consisted of the following for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
SHOPP funds revenue	\$ 874,621	\$ 848,712
SHOPP assessment fees expense	<u>(212,462)</u>	<u>(197,196)</u>
Net SHOPP benefit	<u>\$ 662,159</u>	<u>\$ 651,516</u>

**Note 11 - Contingencies****Risk Management**

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Malpractice Insurance**

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

**Litigations, Claims, and Disputes**

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**COVID-19 Pandemic and PPP loan**

The world-wide coronavirus pandemic continues to impact national and global economies. The Authority is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Authority is not known

The Authority applied for and received loan forgiveness from the SBA on its PPP loan in 2021. In accordance PPP loan requirements, the Authority is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Authority is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on this review.

Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

**Note 12 - Adoption of Lease Standard**

As of July 1, 2020, the Authority adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Beginning capital assets, long term liabilities and cash flows were restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Originally Presented June 30, 2021	Restatement	As restated June 30, 2021
<b>Statement of net position</b>			
<b>Assets</b>			
Capital assets not being depreciated, net	\$ 187,554	\$ -	\$ 187,554
Capital assets being depreciated, net	2,920,117	(31,600)	2,888,517
Right to use leased assets being amortized, net	-	46,358	46,358
<b>Total Capital assets</b>	<u>3,107,671</u>	<u>14,758</u>	<u>3,122,429</u>
<b>Total Assets</b>	<u>\$ 19,394,984</u>	<u>\$ 14,758</u>	<u>\$ 19,409,742</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current maturities of long term debt	\$ 34,482	\$ (34,482)	\$ -
Current portion of right to use lease liabilities	-	48,525	48,525
<b>Total current liabilities</b>	<u>4,115,721</u>	<u>14,043</u>	<u>4,129,764</u>
Long term liabilities	8,270	(8,270)	-
Right to use lease liabilities	-	8,985	8,985
<b>Total Liabilities</b>	<u>4,123,991</u>	<u>14,758</u>	<u>4,138,749</u>
<b>Net position</b>			
Investment in capital assets	2,478,296	-	2,478,296
Restricted	586,623	-	586,623
Unrestricted	12,206,074	-	12,206,074
	<u>15,270,993</u>	<u>-</u>	<u>15,270,993</u>
<b>Total liabilities and net position</b>	<u>\$ 19,394,984</u>	<u>\$ 14,758</u>	<u>\$ 19,409,742</u>

## Choctaw County – City of Hugo Hospital Authority

Notes to Financial Statements

June 30, 2022 and 2021

	Originally Presented June 30, 2021	Restatement	As restated June 30, 2021
<b>Statement of revenues, expenses and changes in net position</b>			
Operating expenses			
Supplies and other	\$ 1,975,922	\$ (35,908)	\$ 1,940,014
Depreciation and amortization	442,508	33,939	476,447
Total operating expenses	<u>10,522,822</u>	<u>(1,969)</u>	<u>10,520,853</u>
Operating loss	<u>(1,542,713)</u>	<u>1,969</u>	<u>(1,540,744)</u>
Nonoperating revenues (expenses)			
Interest expense	<u>(16,495)</u>	<u>(1,969)</u>	<u>(18,464)</u>
Net nonoperating revenues	<u>7,034,186</u>	<u>(1,969)</u>	<u>7,032,217</u>
Change in Net Position	<u>\$ 5,491,473</u>	<u>\$ -</u>	<u>\$ 5,491,473</u>
<b>Statement of cash flows</b>			
Operating activities			
Payments to suppliers and contractors	<u>\$ (4,509,861)</u>	<u>\$ 35,920</u>	<u>\$ (4,473,941)</u>
Net cash used for operating activities	<u>(900,382)</u>	<u>35,920</u>	<u>(864,462)</u>
Capital and capital related financing activities			
Principal payments on long-term debt	(87,901)	87,901	-
Interest payments on short-term note payable	(16,483)	195	(16,288)
Principal payments on right to use lease liabilities	-	(121,840)	(121,840)
Interest paid on right to use lease liabilities	<u>-</u>	<u>(2,176)</u>	<u>(2,176)</u>
Net cash used for capital and capital related financing activities	<u>(1,165,583)</u>	<u>(35,920)</u>	<u>(1,201,503)</u>
Net change in cash and cash equivalents	<u>\$ (2,028,617)</u>	<u>\$ -</u>	<u>\$ (2,028,617)</u>

### Note 13 - Subsequent Events

The Authority has evaluated subsequent events through April 25, 2023, the date which the financial statements were available to be issued.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees  
Choctaw County – City of Hugo Hospital Authority  
Hugo, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Choctaw County – City of Hugo Hospital Authority (Authority), as of and for the year ended June 30, 2022, and the related notes to the financial statements which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated April 25, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority’s financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Authority's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma  
April 25, 2023

**2022-001 Preparation of Financial Statements**

**Material Weakness**

*Criteria:* A properly designed system of internal control over financial reporting includes controls to ensure new accounting standards are properly implemented in financial reporting.

*Condition:* The Authority did not have an internal control system designed to properly implement GASB Statement No. 87, Leases (GASB 87).

*Cause:* This condition was caused by the lack of a properly designed reporting process.

*Effect:* Adjustments were required during the audit to properly state the account balances impacted by the new standard. In addition, the need for adjustments indicates that the Authority's interim financial information may not be materially correct, which may affect management decisions during the course of the year. Audit adjustments were required to fairly state right to use assets, net capital assets, lease liabilities and long-term debt.

*Auditor's Recommendation:* We recommend the Authority adopt a process over the implementation of new accounting standards and to monitor lease transactions going forward. Management will need to analyze any new agreements entered into by the Authority and ensure leases meeting the criteria of GASB 87 are correctly reported.

*Views of Responsible Officials:* Management agrees with the finding.